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C O N F I D E N T I A L CARACAS 001426

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ENERGY FOR PUMPHREY AND LOCKWOOD  
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SUBJECT: VISIT TO VENEZUELA OF SENATOR NELSON - ECONOMIC MEETINGS

REF: CARACAS 1350

Classified By: Amb. Charles S. Shapiro. Reason: 1.5(b) and (d)

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Summary  
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1. (C) During his April 15-17 visit to Venezuela Senator Bill Nelson (D-FL) met with representatives of U.S. energy businesses operating in Venezuela, with state oil corporation PDVSA President Ali Rodriguez, and with members of the board of the Venezuela-U.S. Chamber of Commerce and Industry (VENAMCHAM). Energy company representatives outlined the situation which they faced in Venezuela and estimated that Venezuela produced no more than 2.5 million barrels of oil per day. PDVSA President Rodriguez put the figure at 3.15 million barrels per day and outlined plans for a major expansion of the oil sector. VENAMCHAM board members, whose businesses ranged from food processing to electrical equipment, expressed concerns about an overall unfavorable business climate. (Senator Nelson's meetings on political issues are discussed septel.) End summary.

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Energy Sector Dinner  
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2. (C) Senator Nelson dined with energy sector executives representing operators, oil field service companies and the trade association of foreign oil companies. The industry representatives underlined that legal stability is their primary concern. They pointed to the mixture of "radical rhetoric with businesslike behavior," of the GOV, adding, "if they didn't need us, none of us would be here."

3. (C) Turning to a discussion of President Chavez's recent threats to stop exporting oil to the U.S. (reftel and previous), the industry representatives argued that Venezuela still needed the U.S. market. However, they pointed to the Libyan example, noting that its production was over 3 million b/d when Qadhafi came to power and has now dropped to 1.5 million b/d. This reduced income nonetheless has been enough to maintain Qadhafi in power. The industry representatives then commented that, with Venezuelan production decreasing (they put current production at approximately 2.5 million b/d), Chavez may ultimately not need a market the size of the U.S. market. (The Ambassador pointed out that Venezuela's population is five times that of Libya.)

4. (C) Senator Nelson countered with a question about whether the expectations of the Venezuelan poor can be met with dropping oil production. The company representatives noted that the GOV had just made state oil company PDVSA's 2004-2009 business plan public, envisioning a major increase in Venezuela's production capacity by 2009. In sum, however, despite GOV stated plans to hire more oil rigs, etc., in 2004, the company representatives anticipated that Venezuelan production would continue to fall and that Venezuela's presence in international markets would decrease.

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PDVSA Meeting  
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4. (C) Senator Nelson opened his meeting with PDVSA President Ali Rodriguez by telling him that he had met with U.S. companies that were interested in producing more oil in Venezuela. "What are the prospects?" he asked. Rodriguez responded that the prospects were good. He said that PDVSA had just finished an intensive examination of its business prospects and had also just published its 2004-2009 business plan in which it envisioned increasing its production capacity from 3.8 to 5.0 million b/d. The U.S., he said, would continue to be a major partner. (Note: Production capacity is the amount of production a country believes it could produce given optimum circumstances of facilities and wells. Actual production is the amount currently being produced. In the case of Venezuela, the amount of actual production claimed by the GOV is under dispute. End Note.)

15. (C) Rodriguez said that Venezuela (PDVSA plus the

Strategic Associations under which foreign oil companies operate here in partnership with PDVSA) was producing 3.150 million b/d. In response to a question by the Senator about why others said production is 2.5 million, Rodriguez responded that PDVSA's production alone was 2.56 million. Venezuela, according to Rodriguez, had tremendous reserves but the market could not accept an infinite amount of oil and must instead be balanced.

16. (C) Senator Nelson commented that he had seen a great deal of poverty in Venezuela and that, if he were President Chavez, he would pump more oil. Rodriguez responded that PDVSA planned to do just that but that it needed to do so on a rational basis. Pointing to the extra heavy crude of the Orinoco heavy oil belt as an example, Rodriguez said that the current seven percent recovery level was too low. The GOV wanted to increase that to 20 percent or more and was now examining the development of new technologies with its partners. He added that new laws passed by the Chavez government had opened the hydrocarbons sector to new investment. ChevronTexaco, for example, had won important off-shore exploratory gas blocks and now Venezuela planned to bid out seven more blocks.

17. (C) Turning to a discussion of energy policy, Senator Nelson noted that oil consumption in the U.S. would continue to increase. He detailed Senator Kerry's energy policy, saying that the Senator believed it was not good for the U.S. to be dependent on Middle Eastern oil. Rodriguez agreed that projections hold that U.S. demand will continue to increase. He added that he believed there should be an international agreement between producers and consumers. He noted that he had been OPEC Secretary General at a time when prices had dropped and added that this volatility affected everyone.

18. (C) The Ambassador then asked Rodriguez about the status of the Tomoporo oil project. (Note: While the GOV has gone back and forth on whether PDVSA will develop this large new field itself or open it to foreign investment, the most recent announcement was that PDVSA would develop it. End note.) Rodriguez explained that PDVSA is continuing to study the development of Tomoporo, the largest new project on the horizon. He added that between 2004-2009, PDVSA's business plan envisioned \$37 billion in investment. Of this, \$27 billion would be invested by PDVSA while \$10 billion was anticipated from third parties.

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VENAMCHAM Meeting  
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19. (C) In an April 17 meeting, members of the Venezuelan-American Chamber of Commerce and Industry (VENAMCHAM) Board of Directors briefed Senator Nelson on increasingly negative business conditions in Venezuela. The members attributed the country's economic decline to various political factors, including endemic corruption and the absence of a predictable rule of law. Board member Alberto Mestre, head of General Mills' operations in Venezuela, told the Senator corruption had increased under the current administration and asked for U.S. help in confronting the problem. Mestre also warned of imminent problems in the food sector if the GOV continued directly importing food in competition with the private sector while simultaneously maintaining rigid price and exchange controls. Reina McPeck, coordinator of Venamcham's small and medium business committee, estimated that almost 10,000 businesses had shut down in the last year of economic contraction.

10. (C) Regional General Electric representative Jose Luis Serra told the Senator that Venezuela remained attractive for multinationals in comparison with places such as Iran or Iraq. However, he expressed concern about future investment given the unpredictable nature of GOV economic policy creation. He noted that the "rules of the game have changed" when dealing with government entities such as PDVSA, and communication has become more complicated. In response to their appeals for investment and support from the U.S., Senator Nelson asked the gathered businesspeople what efforts they had made to address Venezuela's underlying social problems as a means of gaining support from Chavez's core constituency. They described ongoing projects aimed at increasing literacy, providing health care and fostering

entrepreneurship. The members ended by asking the Senator to convey to candidate Kerry their call for the U.S. to get more involved in Venezuela's search for a solution to its political crisis.  
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